



25 Sigourney Street  
Hartford CT 06106-5032

## STATE OF CONNECTICUT DEPARTMENT OF REVENUE SERVICES

# IP 2000(24)

### INFORMATIONAL PUBLICATION

## Q & A on Sales and Use Taxes for a New Business

**PURPOSE:** This Informational Publication answers commonly asked questions about Connecticut sales and use taxes for a new business. State law requires a business to register for a *Sales and Use Tax Permit* if the business intends to sell goods or provides any taxable services in this state. As a retailer or service provider, the business must collect sales tax and pay the tax to the Department of Revenue Services (DRS) for the privilege of doing business in Connecticut. A retailer or service provider that fails to collect the tax can lose its permit to conduct business in Connecticut and may owe penalty and interest in addition to the tax.

This publication provides basic information to help businesses avoid costly errors. See *Related Forms and Publications* on Page 5 for a list of publications with more detailed information on specific subjects.

### What is the sales tax?

The sales tax is a tax imposed on the sale, rental or lease of most goods and certain services at the rate of 6%. The tax is collected by the retailer and remitted directly to DRS. There is also a 12% room occupancy tax on the rental of rooms in hotels, motels or lodging houses.

### What businesses must collect sales tax?

A business that **sells, rents or leases tangible personal property**, including but not limited to home appliances, automobiles, craft items, household furnishings, antiques, VCRs and tapes, jewelry, stereo and TV equipment, computers, and computer software must collect sales tax.

Some **services** are also taxable. Taxable services include but are not limited to:

- Advertising or public relations services not related to the development of media advertising or cooperative direct mail advertising;

- Business analysis, management, management consulting, and public relations services, excluding any environmental consulting services;
- Cable and satellite television services;
- Computer and data processing services, including but not limited to charges for on-line access to computer services (but excluding services rendered in connection with the creation, development, hosting or maintenance of all or part of a web site on the World Wide Web). The tax on computer and data processing services is being phased out through a series of annual rate reductions.

Sales of Internet access services, otherwise taxable as computer and data processing services, will be exempt from sales and use taxes effective July 1, 2001. Internet access services are taxable at 2% from July 1, 2000, until July 1, 2001.

The current and future reduced rates for all other computer and data processing services are:

**effective July 1, 2000 – 2%**

**effective July 1, 2001 – 1%**

**effective July 1, 2002 – 0%**

- Credit information and reporting services;
- Employment agencies and agencies providing personnel services;
- Exterminating services;
- Flight instruction and chartering by a certificated air carrier;
- Furniture reupholstering and repair services;
- Janitorial services (including the cleaning of homes, offices, and commercial property);
- Landscaping and horticulture services;
- Lobbying or consulting services;
- Locksmith services;
- Maintenance services;
- Miscellaneous personal services, exclusive of services rendered by licensed massage therapists and licensed hypertrichologists;
- Motor vehicle parking, except metered space, in a lot with thirty or more spaces;

- Motor vehicle repair services;
- Personnel training services;
- Photographic studio services;
- Prepaid telephone calling service (including but not limited to calling cards) and the recharge of such service, which is now a separate taxable service, and is no longer taxable as a telecommunications service, effective October 1, 2000;
- Private investigation and security services;
- Radio or television repair services;
- Repair services to electrical or electronic devices;
- Repair or maintenance services to tangible personal property (other than services to vessels, shoe repair, and repairs to certain medical equipment);
- Repair or renovation services to industrial, commercial, and income-producing real property;
- Repair or renovation services to residential real property, limited to: paving, painting or staining, wallpapering, roofing, siding, and exterior sheet metal work.

The rate for the sale of repair or renovation services to residential real property is being reduced annually and is scheduled to be completely phased out, effective July 1, 2001. The current and future reduced rates are:

**effective July 1, 2000 – 2%**

**effective July 1, 2001 – 0%**

- Sales agent services for selling tangible personal property, except for the services of a consignee selling works of art or clothing, or the services of an auctioneer;
- Sign painting and lettering services;
- Stenographic services;
- Storage or mooring of any noncommercial vessel on land or in the water, **except** the nonseasonal (November 1 through April 30) dry or wet storage, or mooring of noncommercial vessels;
- Swimming pool cleaning and maintenance services;
- Telecommunications services;
- Telephone answering services;
- Warranty and service contracts for any item of tangible personal property;
- Window cleaning services.

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### What items are not subject to sales tax?

There are a number of exemptions from the sales tax, including items of clothing and footwear costing less than \$75 each, food products, and fuel for home heating.

Beginning in 2000, each year, from the third Sunday in August through the following Saturday, most items of clothing and footwear costing less than \$300 each are not taxable.

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### Must a business make a minimum amount of sales before it must register to collect sales tax?

No. A business must register before it makes any sales.

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### What is the use tax?

The use tax generally applies to taxable tangible personal property or services on which the seller did not impose Connecticut sales tax.

If a business purchases taxable goods or services for use in a trade or business (such as office furniture, computers, and supplies) and the seller does not charge Connecticut sales tax, it must report purchases subject to the use tax on **Form OS-114, Connecticut Sales and Use Tax Return**, for the period in which the purchases are made. If an item purchased in another state already was subject to that state's sales tax, credit for the tax may generally be taken when computing the Connecticut use tax.

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### How does a business register?

A business can register for a *Sales and Use Tax Permit* by mail or in person at DRS, 25 Sigourney Street, Hartford, CT 06106-5032. A business can also register at DRS regional offices located in Bridgeport, Hamden, Norwich, and Waterbury. The blue pages of the telephone book list the address of the office nearest to the business.

There is a \$20 fee to register for a *Sales and Use Tax Permit* and an additional \$25 fee to register for a license to sell cigarettes at retail.

Use **Form REG-1, Application for Tax Registration Number**, to register for a *Sales and Use Tax Permit* as well as to register for:

- Admissions and Dues Tax
- Business Use Tax
- Cigarette Tax (over-the-counter retail)
- Corporation Business Tax
- Dry Cleaning Surcharge
- Income Tax Withholding
- Motor Vehicle Rental Surcharge
- Room Occupancy Tax

- Tourism Account Surcharge on the Rental or Leasing of Passenger Motor Vehicles
- Unrelated Business Income Tax
- Utility Companies Tax

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### **For what other taxes may a business be liable?**

A business may be liable for state taxes administered by another state agency or for federal taxes. The Connecticut Licensing Info Center Web site is an online, searchable database of over 900 licenses, permits, and registrations administered by 25 Connecticut state agencies. Visit the Web site at: **www.ct-clic.com**

Contact the Internal Revenue Service (IRS) about federal tax requirements. The IRS telephone number is 1-800-829-1040. Walk-in assistance is available at the IRS office at 135 High Street in Hartford and other locations throughout Connecticut. Check the blue pages of the telephone book.

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### **Once a business has a seller's permit, will it ever have to obtain another one?**

A *Sales and Use Tax Permit* is issued for two years. The permit will be renewed and mailed to the business at the end of that period without an additional fee if its account shows no sales tax delinquencies. If the account shows one or more delinquencies, DRS will send **Form OR-219, Registration Renewal Form**, prior to the renewal date.

Each new business location must have its own *Sales and Use Tax Permit*. If a business expands and opens a second location, it must obtain a permit, and pay a \$20 fee, for the new location.

Also, if the ownership or structure of the business changes for federal tax purposes (for example, if a sole proprietorship becomes a partnership or corporation), the new business must obtain a new permit and pay the \$20 fee.

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### **If a business performs a taxable service and sells taxable goods from the same location, does it need more than one seller's permit?**

No. Only one permit is required. It allows the business to collect tax for sales of goods and services, as well as rentals and leases made at the same business location.

### **What if a business is located out-of-state and intends to make sales into Connecticut through the mail or by common carrier?**

If a business is located outside the state but has any physical presence in Connecticut (owning or leasing real or tangible personal property, maintaining an office, or having employees or agents present in this state), it must register to collect Connecticut use tax on sales to Connecticut customers and must obtain a *Connecticut Sales and Use Tax Permit*. If the business does not have any physical presence in Connecticut, but wishes to register to collect Connecticut use tax, it may also register for a permit. All businesses making sales from outside the state should register using **Form REG-7, Application for Authority to Collect Connecticut Use Tax**.

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### **What if a business is located out-of-state but will come into Connecticut and sell (for example, at a craft show or flea market)?**

Before making any sales in Connecticut, the business must complete **Form REG-1, Application for Tax Registration Number**. DRS will issue a Connecticut *Sales and Use Tax Permit* and will require the business to collect Connecticut sales tax. The business must obtain a Connecticut *Sales and Use Tax Permit* if it performs any taxable services in this state.

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### **How does a business get a new copy of its Sales and Use Tax Permit if it changes its address or loses the permit?**

Notify DRS in writing at the following address:

Department of Revenue Services  
Registration Unit  
25 Sigourney Street  
Hartford CT 06106-5032

There is no fee to replace a sales and use tax permit.

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### **How often are sales and use tax returns filed?**

Generally, new businesses file sales and use tax returns on a quarterly basis. The quarterly periods and return due dates are:

Periods	Due Dates
January 1 - March 31	April 30
April 1 - June 30	July 31
July 1 - September 30	October 31
October 1 - December 31	January 31

If the business's sales and use tax liability exceeds \$4,000 per year, DRS may require it to file monthly sales and use tax returns. A business may request to file on an annual basis if its sales and use tax liability is less than \$1,000 per year. All returns are due on the last day of the month following the end of the reporting period.

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### Should a business file a return if it made no sales during the reporting period?

Yes. Complete the return showing *zero sales* and *zero taxes due*.

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### On what price does a business compute sales tax?

The tax is computed on the gross receipts or sales price of the sale, rental or lease of the goods or service. Tax is not computed on the business's cost of goods or services. The tax must be billed to customers in one of two ways:

1. Tax included, in which case the bill must be marked *tax included*, **or**
2. The tax is added to the sales price, and separately stated on the bill.

If a business bills customers *tax included*, it must keep records showing the sales price of the goods or services and the tax charged.

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### If a business bills its customers *tax included*, how does it report gross receipts on Line 1 of the sales and use tax return?

Multiply the amount billed the customer by 94.3% (.943). The result is the gross receipts, which must be reported on Line 1 of the tax return.

**Example:**

Billed amount (tax included)	\$100.00
Multiplication factor (94.3%)	<u>x 0.943</u>
Gross receipts (Line 1)	\$ 94.30

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### When does a business report its sales?

In general, a seller of goods and taxable services must report sales on the accrual basis. This means that all sales must be reported during the filing period in which the sale is made, not when the customer renders payment. To determine when certain sales are made, such as layaway, mail order, telephone, Internet, and custom order sales, contact the DRS Taxpayer Services Division.

### When may a business report sales on the cash basis?

A seller of certain services that files with the IRS on the cash basis may be able to file sales and use tax returns on the cash basis. Contact the DRS Taxpayer Services Division for more information on who may file on the cash basis.

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### How does a business purchase inventory or goods for resale without paying sales tax?

A business must complete a Connecticut *Sales and Use Tax Resale Certificate*, and give it to the vendor from whom it makes a purchase of goods or services that it intends to resell in the regular course of business.

A certificate may **not** be used to purchase items for use by the business, such as office supplies, furniture, and fixtures. Such purchases are subject to use tax if the business does not pay Connecticut sales tax.

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### What must customers provide to demonstrate that they are exempt from paying sales tax?

The customer must give the business a completed Connecticut *Sales and Use Tax Resale Certificate* or other approved exemption certificate. Retailers making sales in Connecticut should not accept exemption certificates issued by other states. **Informational Publication 99(21.1)** includes a list of exemptions and certificates. If a business has a question about the validity of an exemption claimed by a customer, contact the DRS Taxpayer Services Division.

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### If a business makes a sale and delivers the goods outside Connecticut, should it collect Connecticut sales tax?

No, if the title to the goods transfers to the purchaser outside Connecticut, Connecticut sales tax does **not** apply. For example, Connecticut sales tax would not apply if a company ships the goods or arranges to have the goods shipped to a customer outside Connecticut. (However, depending upon the company's activities in the other state, it may be required to register and collect sales tax for that state.)

Connecticut sales tax **does** apply if title to the goods transfers in Connecticut, even if the purchaser lives in another state. For example, if the customer comes to a Connecticut location and takes possession of the goods, Connecticut tax applies, even if the customer takes the goods in his own vehicle to an out-of-state location, or arranges to have the goods picked up from

the Connecticut location and delivered to an out-of-state location. In addition, if a business makes a sale outside of Connecticut but delivers the goods into Connecticut in a vehicle owned or leased by the company, it is required to collect Connecticut use tax.

**Note:** Connecticut and New York businesses may elect to collect tax on behalf of the other state if they participate in the New York/Connecticut Sales Tax Agreement. Contact the DRS Taxpayer Services Division for information about this agreement.

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### **What are the penalties and interest for filing a sales and use tax return late?**

There is a penalty of \$50 or 15% of the tax due (whichever is greater) for the late payment of the tax. Interest of 1% per month or fraction of a month is calculated on the underpayment of tax.

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### **What records must a business keep to verify the figures on its Sales and Use Tax Return?**

The business must keep the following records for a **minimum of six years**:

- Sales receipts
  - Purchase invoices
  - Cash register tapes
  - State and federal tax returns
  - Documents that show price changes
  - Resale and exemption certificates
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### **A business is closing. What should it do?**

The business must cancel its *Sales and Use Tax Permit* as follows:

1. File its monthly, quarterly or annual return and enter the last business date in the block provided. Write the word “FINAL” prominently across the top of the return; and
  2. Complete the back of the permit and enclose the permit card with the return.
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### **If a person purchases a business, is the person obligated for the previous owner's sales tax liability?**

Yes. To avoid successor liability, the purchaser must obtain a *Tax Clearance Certificate for Sales and Use Taxes*, before it purchases an existing business. The purchaser of a business is liable for the taxes of the previous owner to the extent of the purchase price

**unless** the purchaser obtains a tax clearance certificate from DRS.

For more information on how to obtain a *Tax Clearance Certificate for Sales and Use Taxes*, call the DRS Refunds, Clearance and Adjustments Unit at 860-541-3253.

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**EFFECT OF THIS DOCUMENT:** An Informational Publication is a document that addresses frequently asked questions about a current DRS position, policy or practice, usually in a less technical format.

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**EFFECT ON OTHER DOCUMENTS:** **Informational Publication 2000(24)** modifies and supersedes **Informational Publication 92(1.5)**, *Q&A on Sales and Use Taxes for a New Business*, which may no longer be relied upon on or after the date of issuance of this publication.

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**RELATED FORMS AND PUBLICATIONS:** See the current edition of the following forms and publications, for more information:

- **Informational Publication 2000(14)**, *Notice to Retailers on Sales and Use Tax Resale Certificates*
- **Informational Publication 99(11.1)**, *Business Taxes*
- **Informational Publication 99(19)**, *Building Contractors' Guide to Sales and Use Taxes*
- **Informational Publication 99(21.1)**, *Getting Started in Business: Understanding Connecticut Taxes*
- **Informational Publication 93(3.1)**, *Questions and Answers on the Connecticut Use Tax for Businesses and Professions*
- **Policy Statement 98(2)**, *Sales and Use Taxes on Access to the Internet and Other On-Line Sales of Goods and Services*
- **Policy Statement 98(3)**, *Sales and Use Taxes on Computer-Related Services and Sales of Tangible Personal Property*
- **Special Notice 2000(3.1)**, *2000 Legislation Affecting Sales and Use Taxes and Admissions and Dues Tax*
- **Special Notice 91(4)**, *Miscellaneous Personal Services*
- **Form REG-1**, *Application for Tax Registration Number*
- **Form REG-7**, *Application for Authority to Collect Connecticut Use Tax*

**FOR FURTHER INFORMATION:** Please call DRS during business hours, 8:00 a.m. to 5:00 p.m., Monday through Friday:

- **1-800-382-9463** (toll-free within Connecticut), or
- **860-297-5962** (from anywhere)

**TTY, TDD, and Text Telephone users only** may transmit inquiries 24 hours a day by calling 860-297-4911.

**FORMS AND PUBLICATIONS:** Forms and publications are available all day, seven days a week:

- **Internet:** Preview and download forms and publications from the DRS Web site: [www.drs.state.ct.us](http://www.drs.state.ct.us)
- **DRS TAX-FAX:** Call **860-297-5698** from the handset attached to your fax machine and select from the menu.
- **Telephone:** Call **860-297-4753** (from anywhere), or **1-800-382-9463** (toll-free within Connecticut) and select **Option 2** from a touch-tone phone.

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